

Yen, Dollar Drop as Stock, Commodity Gains Cut Demand for Haven Currencies

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The dollar and the yen fell against most major counterparts, with the Japanese currency sliding from near a 15-year high, as advances by stocks and commodities damped demand for havens from financial turmoil.

The yen also weakened amid speculation Japan's policy makers will move to slow the currency's appreciation after it gained 9 percent against the greenback this year. The euro rose after Spanish and Irish borrowing costs declined at sales of government debt as concern eased that the two nations will struggle to contain their budget deficits.

"If you start looking at the riskier assets like the growth currencies, they performed rather well today and have done so on the back of commodities and equities," said Dean Popplewell, an analyst in Toronto at the online currency-trading firm Oanda Corp. "The Irish bond auctions went relatively well, as did the Spanish -- that in itself has helped the risk environment."

The yen depreciated 0.7 percent to 110.15 per euro at 4:24 p.m. in New York, from 109.44 yesterday. It earlier climbed to 109.07, the strongest since July 1. The U.S. currency weakened 0.4 percent to \$1.2880 per euro, from \$1.2827. The yen fell 0.3 percent to 85.53 per dollar, from 85.32 yesterday. It touched 84.73 on Aug. 11, the strongest level since 1995.

Spain auctioned 5.5 billion euros (\$7.1 billion) of 12- and 18-month bills at lower yields from previous sales in July as demand rose, data from the country's debt agency showed today. Ireland sold 1 billion euros of 5 percent bonds due October 2020 at an average yield of 5.386 percent, less than the 5.537 percent yield at a sale last month, according to the National Treasury Management Agency. Both nations are implementing austerity measures to pare budget deficits.

'Quite Worried'

"The market had been quite worried about euro-zone sovereign issues," said Amelia Bourdeau, a currency strategist in Stamford, Connecticut, at UBS AG. "It was good to see both Spain and Ireland get through these bond issues; that's been supporting risk sentiment."

The dollar remained weaker versus the euro even as a Labor Department report showed wholesale costs in the U.S. increased in July for the first time in four months, signaling slower growth is not resulting in deflation. The producer price index rose 0.2 percent. Industrial production rose 1 percent in July, more than forecast, Federal Reserve data showed.

The Standard & Poor's 500 Index climbed 1.2 percent. Crude oil for September delivery gained as much as 1.9 percent to \$76.63 a barrel in New York, and the Reuters-Jefferies CRB Index of raw materials increased 0.8 percent.

Correlations between currencies and other asset classes will remain high, according to HSBC Holdings Plc.

‘Paradigm Will Continue’

“A weakening of the ‘risk-on, risk-off’ paradigm is likely only once macro conditions are improved in a sustainable way, implying the paradigm will continue to dominate the market for some considerable time,” currency strategists led by David Bloom in London wrote in a research report yesterday.

The 120-day negative correlation between IntercontinentalExchange Inc.’s Dollar Index and the S&P 500 was at 42.8 percent today, and has been mostly above 40 percent since June 2009, according to data compiled by Bloomberg.

Japan’s government will start debating on Aug. 20 steps to stimulate the economy, Reuters reported, citing a Jiji Press report of comments by the economics minister, Satoshi Arai.

Lawmakers from Japan’s ruling party last week urged Prime Minister Naoto Kan to consider intervening in the currency market for the first time since 2004.

Intervention Outlook

Central banks intervene in the foreign-exchange market when they buy or sell currencies to influence exchange rates. Japan hasn’t done so since March 2004, when the yen was at about 109 per dollar.

“The government wants it down, but all the traders are still saying there is more to go,” said Yu-Dee Chang, who oversees \$160 million in assets as chief executive officer of ACE Investment Strategists LLC in McLean, Virginia. “Over history, it’s proven over the short-term basis that intervention never works.”

Chang said the yen may appreciate another 5 percent to 7 percent against the dollar by the end of the year.

The Canadian dollar rose today against all of its 16 most-traded counterparts as crude oil, the nation’s largest export, rose for the first time in six days and Potash Corp. of Saskatchewan Inc. received a \$39 billion takeover bid from BHP Billiton Ltd. Potash, the world’s largest fertilizer producer, rejected the offer as “grossly inadequate.”

‘Spillover Effects’

“That someone is prepared to dump that much change in a commodity-linked deal is having spillover effects on risk sentiment and other commodity currencies, though the Canadian dollar holds the lead,” said David Watt, senior currency strategist at Royal Bank of Canada, the nation’s biggest lender.

Canada’s currency appreciated 1 percent to C\$1.0327 to the greenback. Australia’s dollar, another commodity-linked currency, gained 0.8 percent to 90.51 U.S. cents.

The pound and Swiss franc were the worst performers among major currencies. Sterling lost 1 percent to 82.71 pence against the euro and fell 0.6 percent to \$1.5573. The franc, which is considered a haven currency, slumped 0.8 percent to 1.3443 per euro.

Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.